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HOUSE REPUBLICAN CONFERENCE

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H.R. 890 – Student Loan Sunshine Act

Floor Situation

H.R. 890 is being considered on the floor under suspension of the rules and will require a two-thirds majority vote for passage. This legislation was introduced by Representative George Miller (D-CA) on February 7, 2007. The bill was referred to the Committee on Education and Labor and the Committee on the Judiciary. Neither committee considered the bill.

This bill represents an amalgamation of 2 bills addressing student loans. The first bill was introduced by Rep. Miller (H.R. 890). The second bill (H.R. 1994) was introduced by Rep. Buck McKeon (R-CA) on April 23, 2007. These 2 bills have been combined into one bill (H.R. 890), which now includes both Republican and Democrat language.

H.R. 890 is expected to be considered on the floor on May 9, 2007.

Summary

H.R. 890:

Section 2 – Institution and Lender Reporting and Disclosure Requirements

- Requires lenders to provide a student or parent of a student with their options for borrowing (including more favorable terms and conditions) prior to providing a private educational loan.

- Prohibits lenders from using the name, emblem, mascot or logo of the institution to marketing private educational loans in any way that implies that the institution endorses the private educational loans offered by the lender.

- Requires the Secretary of Education to provide a report (within 180 days) to Congress on the information provided to students about educational loans and develop a disclosure form to be used by lenders and institutions. The form shall include information about terms and conditions for loans, interest rates of the loans provided by the lender, appropriate fees, repayment terms, annual percentage rate, average amount borrowed from the lender, contact information, and philanthropic contributions made by the lender.

The Secretary is required to update the disclosure form within one year after consulting with interested parties and assessing the adequacy of the form.

- Lenders that have a preferred lender arrangement with a covered institution are required to provide the institution the information on the model disclosure form for each type of loan provided by the lender. The institution is required to submit a report to the Secretary (and make the report available to the public) that includes the information on the disclosure form and an explanation of "why the covered institution believes the terms and conditions of each type of educational loan provided pursuant to the agreement are beneficial for students attending the covered institution."

- Requires covered institutions to include the following on their website:

  - a statement that indicates that students are not limited to or required to use the lenders recommended by the institution and that the institution is required to process the documents required to obtain a loan from any eligible lender the student selects;

  - all the information provided by the model disclosure form with respect to any lender recommended by the institution;

  - the maximum amount of Federal grant and loan aid available to students; and,

  - the cost of attendance.

- Institutions must inform students or parents of the following when providing information on a private loan from a lender: student's eligibility, terms and conditions, interest rates, repayment options and loan forgiveness.

- Requires institutions that participate in the Federal student loan programs or has students that obtain private educational loans to develop a code of conduct, enforce the code, and publish the code on its website. The code shall include: a prohibition against conflicts of interest, a requirement for annual training in compliance with the code, and a prohibition against gifts from lenders to employees of an institution. Additionally, the Inspector General is required to investigate violations of the code and submit an annual report to Congress about the violations and the lenders involved.

- Prohibits officers, agent or employees from a financial aid office in an institution from accepting any fee, payment or financial benefit as compensation for consulting services, serving on advisory councils or advising a lender.

- Prohibits institutions from entering into any educational loan arrangement with any lender.

- Prohibits an institution from receiving assistance from a lender with call center staffing or financial aid office staffing.

- Prohibits lenders from providing funds for private educational loans in exchange for an institution providing concessions or promises to a lender.

- If a covered institution or lender violates the terms of the legislation (provided above), they would be subject to a $25,000 fine (if they do not participate in a loan program under title IV). If a lender does participate in a program, under Title IV, they could be subject to termination, suspension or limitation of participation in the program.

Section 3 – Program Participation Agreements

- Requires an institution to disclose on a preferred lender list: (1) why each lender has been included as a preferred lender and (2) that the students do not have to borrow from a lender on the list. Additionally, the list must be compiled without prejudice and include at least three lenders that are not affiliates of each other and an explanation of any affiliations on the list. Furthermore, the list must disclose the process to ensure that lenders are placed on the list based on benefits provided to borrowers.

- Prohibits an institution from denying a borrowers choice of a lender if the lender is not recommended by the institution.

Section 4 – Notice of Availability of Funds from Federal Sources

- Requires the creditor of a private educational loan to clearly and prominently disclose the following:

    - That the borrower may qualify for Federal assistance under Title IV of the Higher Education Act of 1965;

    - That in many cases, a Federal student loan may provide the consumer with more beneficial terms and conditions, including a lower annual percentage rate and fewer and lower rates, than private educational loans;

    - That the consumer may obtain additional information concerning such Federal financial assistance from their institution of higher education or at the website of the Department of Education; and,

    - Additional information the board may require.

    **Note: These provisions must be displayed prominently on any written location, solicitation, or another document pertaining to a private educational loan.*

- The creditor must obtain a written acknowledgement that the consumer has read and understood the disclosure.

- Requires that any loan from a private lender to a student over $1,000 must be reported to the institution in writing.

<u>Section 5 – Improved Information Concerning the Federal Student Financial Aid Website</u>

- Requires the Secretary of the Department of Education to prominently display, on the Department's home website page, a link to the Federal student financial aid website.

- Requires that the Secretary provide information regarding other student aid information from every other Federal agency and post them on one webpage maintained by the Department of Education.

Background
The Student loan industry is an $85 million a year industry in the United States. Originally created by President Lyndon B. Johnson as part of his "Great Society," Congress passed the Higher Education Act of 1965. The purpose of this Act was to "to strengthen the educational resources of our colleges and universities and to provide financial assistance for students in postsecondary and higher education."

Congress has reauthorized and amended this Act in 1968, 1972, 1976, 1980, 1986, 1992, and 1998. In 2003, many provisions of this Act were extended through June 30, 2007.

In February of 2007, New York State Attorney General Andrew Cuomo began an investigation into alleged inappropriate relationships between colleges and certain student loan providers. Mr. Cuomo sent letters to over 400 institutions of higher learning warning "them to end or fully disclose potential conflicts of interest in their relationships with private lenders."

Mr. Cuomo's main allegation against these lenders is that institutions of higher learning may have been engaging in providing questionable "preferred lending" lists to students and entered into revenue sharing agreements with the lenders. These "preferred lending" lists allegedly steered students to only consider the mentioned lenders without making clear that students are able to borrow from any lender.

Cost
At the time of publication the Congressional Budget Office (CBO) did not have a cost estimate available for H.R. 890.

Staff Contact

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